

Message Text

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AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

S E C R E T SECTION 1 OF 2 ROME 0715

E.O. 11652: GDS

TAGS: PARM, PFOR, PASS, XG

SUBJECT: DEPARTMENTAL STUDY OF CONVENTIONAL ARMS SUPPLY RESTRAINTS

REF: STATE 305504

1. FOLLOWING MISSION COMMENTS ON POSSIBLE ITALIAN PARTICIPATION
IN A SYSTEM OF CONVENTIONAL ARMS SUPPLY RESTRAINTS ARE
GENERALLY KEYED TO SECTIONS III-VII, PARA 5, REFTTEL.

III. INCENTIVES FOR EUROPEAN ARMS TRANSFERS TO THIRD
WORLD. WHILE ITALIAN DEFENSE (AND ANCILLARY) INDUSTRIES ARE
RESPONSIBLE FOR A RELATIVELY SMALL SEGMENT OF ITALY'S GNP,
ECONOMIC AND POLITICAL/ECONOMIC CONSIDERATIONS MAKE IT DIFFICULT
TO ENVISAGE AN EFFECTIVE SYSTEM OF MULTILATERAL ARMS CONTROL
RESTRAINTS IN WHICH ITALY WOULD WILLINGLY COOPERATE.

A PRIME ITALIAN CONCERN IN A PERIOD OF ECONOMIC CRISIS IS
MAINTENANCE -- OR EVEN EXPANSION -- OF EMPLOYMENT. THE ITALIAN

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ARMS INDUSTRY COMPRISES A LARGE SEGMENT OF THE METAL TRADES,

WHOSE UNION IS ONE OF THE MOST MILITANT AND IMPORTANT OF THE ITALIAN ECONOMY. ALREADY HARD HIT BY UN-AND-UNDEREMPLOYMENT, METAL TRADES (AND OTHER) UNIONISTS, THEIR EMPLOYERS AND THE ITALIAN GOVERNMENT WOULD LOOK WITH DEEPEST DISTASTE ON ANY PROPOSALS WHICH WOULD NECESSARILY PORTEND LOWER PRODUCTION AND EMPLOYMENT LEVELS.

THAT ATTITUDE WOULD BE BROADLY SHARED IN THE ITALIAN MILITARY SERVICES, WHO DEPEND ON LONGER PRODUCTION RUNS MADE POSSIBLE BY SIZEABLE CONVENTIONAL ARMS EXPORTS TO REDUCE UNIT COSTS FOR THEIR EQUIPMENTS, REDUCTIONS MADE IMPORTANT OR EVEN ESSENTIAL BY THE SEVERE BUDGETARY LIMITATIONS UNDER WHICH THE ARMED SERVICES MUST OPERATE IN A HIGHLY INFLATIONARY PERIOD.

THE PREDOMINANT PLACE IN THE ECONOMY GIVEN BY THE ITALIAN GOVERNMENT TO MAINTENANCE OF A HEALTHY BALANCE OF PAYMENTS IS EVIDENCED BY ITS WILLINGNESS TO RISK THE RISING DOMESTIC UN-AND-UNDEREMPLOYMENT ENGENDERED BY TIGHT CREDIT TO LIMIT IMPORTS AND BY ITS EMPHASIS ON MAINTENANCE AND EXPANSION OF EXPORTS, INCLUDING ARMS. ANY PROPOSED PROGRAM WHICH WOULD FURTHER HAMPER, IN ANY MEANINGFUL WAY, THE RESTORATION OF EQUILIBRIUM IN ITALY'S EXTERNAL ACCOUNTS WOULD BE RECEIVED NEGATIVELY BY THE GOVERNMENT, ITALIAN BANKERS AND INDUSTRIALISTS.

ALTHOUGH PROUD OF, AND RELIANT ON, THEIR MEMBERSHIPS IN NATO, THE EUROPEAN COMMUNITY, IEA AND OTHER INTERNATIONAL ORGANIZATIONS, FEW ITALIANS IN THEIR HEARTS FEEL THAT ITALY HAS MUCH ABILITY TO INFLUENCE THE FOREIGN POLICIES OF OTHER STATES. WHILE FOREIGN POLICY INFLUENCE IS THUS A MARGINAL FACTOR, PROVISION OF CONVENTIONAL ARMS IS ONE ELEMENT WHICH THE GOI LOOKS TO IN ENLARGING ITS PRESTIGE AND ITS EXTERNAL TRADE LINKS, INCLUDING THE MIDDLE EAST, OTHER THIRD WORLD STATES, AND NOT EXCLUDING WARSAW PACT POWERS AND POTENTIALLY YUGOSLAVIA. AGAIN, THEREFORE, THE GOI WOULD HAVE LITTLE REASON TO FAVOR FOREGOING THIS ONE OF THE FEW ARROWS IN ITS QUIVER, marginally important as it may be.

IV. CURRENT PUBLIC AND OFFICIAL ATTITUDES. UNLIKE MANY OTHER INDUSTRIALIZED STATES, THE QUESTION OF ARMS EXPORTS TO DEVELOPING STATES IS A NON-ISSUE FOR ITALIANS. THE OCCASIONAL ACCUSATORY PIECE IN THE PRESS EVOKES LITTLE INTEREST SINCE THE

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ITALIANS, FOR GENERALLY VALID REASONS, HAVE FEW GUILT FEELINGS ABOUT THEIR LIMITED SALES TO POORER, OR OTHER, DEVELOPING STATES. ARMS RESTRAINT PROPOSALS ARE UNLIKELY, THEREFORE, TO GENERATE ANY DEGREE OF PUBLIC SUPPORT WHICH MIGHT PARTIALLY COUNTERVAIL AGAINST THE FACTORS CITED IN III ABOVE.

V. INTRO-EUROPEAN CONCERNS. IF CONVENTIONAL ARMS SALES TO NON-INDUSTRIALIZED STATES IS A NICKLE-DIME AFFAIR FOR ITALY, ARMS

DEVELOPMENT, PRODUCTION AND SALE TO ITS EUROPEAN AND AMERICAN PARTNERS ARE BIG BUSINESS FOR ITALIANS, AND PLANNED TO BE MUCH LARGER IN THE FORESEEABLE FUTURE. ITALY INTENDS TO EARN ITS RIGHT-OF-WAY ON THE "TWO WAY STREET".

FOR MORE THAN TWO DECADES, ITALY AND UNITED STATES HAVE BEEN PARTNERS IN AN EXTENSIVE SERIES OF ARMS COPRODUCTION AGREEMENTS, THE MOST NOTABLE OF WHICH ARE PERHAPS THE F-104 (G AND S SERIES), THE M-113 FAMILY OF APC'S AND HELICOPTERS COPRODUCTION WITH A NUMBER OF AMERICAN COMPANIES.

ITALY WILL WANT TO CONTINUE ITS BILATERAL COOPERATION WITH THE UNITED STATES AND IS ALREADY GIVING INCREASING EMPHASIS TO COOPERATIVE ENTERPRISES WITH ITS EUROPEAN PARTNERS. THE ITALIAN MINORITY HOLDING IN THE NRCA CONSORTIUM IS THE ONLY MAJOR EXISTING COPRODUCTION AGREEMENT FOR ITALY IN THE ALL-EUROPE CONTEXT. HOWEVER, ANOTHER PRIME EXAMPLE OF ITALIAN PARTICIPATION IN NATO STANDARDIZATION AND COPRODUCTION IS THE HAWK HELIP PROGRAM. FURTHER DOWN THE ROAD, IN ADDITION TO WHATEVER PRODUCTION NUMBERS OF THE MRCA ARE INVOLVED, THE ITALIAN AIR FORCE HAS INDICATED THAT A NEW AIR-DEFENSE FIGHTER WILL BE NEEDED. ITALY'S LARGEST AIRCRAFT MANUFACTURER, AERITALIA (WHICH PRODUCES EXCLUSIVELY FOR THE ITALIAN MINISTRY OF DEFENSE), HAS HELD DISCUSSIONS WITH OTHER NATION NATIONS ON THE FEASIBILITY OF DESIGNING, DEVELOPING AND PRODUCING SUCH A FIGHTER UNDER AN ARRANGEMENT SIMILAR TO MRCA. IF THIS OR SIMILAR PROPOSALS (I.E., THE EUROGROUP FIGHTER) PAN OUT, PRODUCTION QUANTITIES WOULD NOT BE AVAILABLE UNTIL THE MID-EIGHTIES. IN THE MEANWHILE, ACCORDING TO THE ITALIAN VIEW, THE EUROPEAN AND ITALIAN AIRCRAFT INDUSTRIES MUST USE EXTANT PRODUCTION (E.G., F-104'S AND G-222 TRANSPORTS) TO STAY HEALTHY, OR ALIVE.

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VI. DESPITE MUCH OF THE FOREGOING, IT IS POSSIBLE TO ENVISAGE A SYSTEM IN WHICH THE ITALIANS WOULD WILLINGLY COOPERATE, PROVIDED THAT THREE OR MORE MAJOR CONSIDERATIONS ARE ADEQUATELY DEALT WITH.

-- THE WARSAW POWERS WOULD HAVE TO BE FULL AND EFFECTIVE PARTICIPANTS. MANY ITALIAN GOVERNMENT AND BUSINESS LEADERS VIEW THE EASTERN EUROPEAN NATIONS, INCLUDING THE USSR, NOT ONLY AS GOOD MARKETS BUT ALSO AS KEEN COMPETITORS, ESPECIALLY IN THE CONVENTIONAL ARMS AREA. ANY EXPORT SALE LOST TO THESE COUNTRIES, EVEN WERE IT THE RESULT OF SOME GENERAL RESTRAINT AMONG WESTERN COUNTRIES INCLUDING ITALY, WOULD BE DIFFICULT FOR THE ITALIANS TO ACCEPT.

-- MAJOR THIRD WORLD CONSUMERS, ACTUAL AND POTENTIAL,

WOULD HAVE TO BE VOLUNTARY PARTICIPANTS IN ANY SUCH SYSTEM.
APART FROM THEIR INDISPENSABILITY TO MAKE ANY SYSTEM WORK
ADEQUATELY OVER TIME, THE ITALIANS WOULD WANT NO PART OF A PLAN
LOOKING, RIGHTLY OR NOT, LIKE A SCHEME DESIGNED BY THE
INDUSTRIAL PRODUCERS TO LOCK DEVELOPING STATES INTO MILITARY
INFERIORITY.

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S E C R E T SECTION 2 OF 2 ROME 0715

-- ALL MAJOR PRODUCER STATES, INCLUDING JAPAN (E.G.,
MILITARY ELECTRONICS), NATO AND WE COUNTRIES, PLUS LIKELY
SWITZERLAND AND SWEDEN, WOULD HAVE TO TAKE PART IN A
RESTRAINTS SYSTEM.

WERE SUCH A SYSTEM PUT INTO EFFECT, ITALY WOULD NEED FEW
ADDITIONAL TOOLS TO ENFORCE IT DOMESTICALLY. THE PRESENT
ITALIAN SYSTEM OF EXPORT LICENSING, PLUS COCOM STRICTURES, COULD
BE MADE EFFECTIVE IF, RPT IF (PARA 3, ROME 00571), WILLINGLY
AND ENTHUSIASTICALLY ENFORCED. ITALY'S CURRENT SYSTEM IS
ESSENTIALLY AD HOC, WITH EXPORT DECISIONS TAKEN ON A CASE-BY-
CASE BASIS. THE ONLY GENERAL STRICTURES SAID NOW TO BE IN
FORCE ARE AGAINST EXPORTS TO LEBANON (ROME 00571) AND REPORTEDLY

TO THE REPUBLIC OF CHINA (SIC).

VII. POSSIBLE FORA FOR DISCUSSION. WERE WE TO BROACH
A POSSIBLE RESTRAINTS AGREEMENT TO THE GOI, WE WOULD ANTICIPATE
A SHORT PERIOD OF BILATERAL CONSULTATIONS, FOLLOWED ALMOST
AUTOMATICALLY BY DISCUSSIONS WITH ITALY'S OTHER PARTNERS IN NATO
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AND THE EUROPEAN COMMUNITY. A PAN-EUROPEAN APPROACH WOULD HAVE
LITTLE APPEAL, BUT A SUBSEQUENT MULTILATERAL CONFERENCE OF THE
MOST SIGNIFICANT PRODUCERS AND CONSUMERS WOULD BE A LOGICAL
FOLLOW-UP STEP.

VIII. TYPES OF POTENTIAL GUIDELINES. WE BELIEVE, AND
ANTICIPATE THE ITALIANS WOULD TOO, THAT AN APPROACH TO THE
PROBLEMS THROUGH ESTABLISHMENT OF FINANCIAL CEILINGS IS TOO
COMPLICATED, CUNBERSOME AND SUBJECT TO VARIED INTERPRETATION
TO HAVE MUCH OF A CHANCE. SIMILARLY AS EXPERIENCED IN THE UN,
PERCENTAGE CUTS WOULD HAVE TO BE BASED ON VALUATION AND OTHER
FORMULAE WHICH ARE FAR FROM BEING AGREED. THE ITALIANS MIGHT
BE SUSCEPTABLE TO A GEOGRAPHIC AGGROACH, PREFERABLE WERE THE
TARGETTED REGIONS OF RESTRAINT NOT AREAS OF EXTANT OR POTENTIAL
LARGE ITALIAN SALES. SIMILARLY RESTRICTIONS OF SPECIFIC TYPES
OF WEAPONS SYSTEMS MIGHT INTEREST THE ITALIANS, PROVIDED THE
NOMINATED SYSTEMS ARE NOT CURRENT OR POTENTIAL SIGNIFICANT
ITALIAN EXPORTS. INFORMAL CARTELIZATION, TOO, WOULD HAVE SOME
APPEAL FOR THE ITALIANS, THE EXTENT OF THEIR INTEREST TO BE
DETERMINED BY THE GROUND RULES WHICH WOULD BE APPLIED.

2. CONCLUSION. WE BELIEVE THAT FOR THE FACTORS CITED ABOVE
ITALY WOULD BE HIGHLY, BUT NOT NECESSARILY VISIBLY SO,
RESISTANT TO CONVENTIONAL ARMS SUPPLY RESTRAINTS. AT THE SAME
TIME, HOWEVER, ITALY IS RELUCTANT TO SEEM ODD-MAN-OUT AMONG
ITS NATO OR COMMUNITY PARTNERS, AND WOULD LIKELY SWING INTO
LINE, IF GRUDGINGLY, SHOULD A LARGE MAJORITY OF ITS FRIENDS
AND ALLIES APPLY SUFFICIENT PERSUASION, OR SUASION.VOLPE

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